

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

December 14, 2010

2:13 p.m.

DRAFT

MEMBERS PRESENT

Senator Kevin Meyer, Chair
Representative Mike Hawker, Vice Chair (via teleconference)
Senator Lyman Hoffman
Senator Charlie Huggins
Senator Bert Stedman
Representative Mark Neuman (via teleconference)
Representative Bill Stoltze
Representative Bill Thomas
Representative Mike Doogan
Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

MEMBERS ABSENT

Representative Nancy Dahlstrom (alternate) (Resigned 5/31/10)
Senator Linda Menard
Senator Donald Olson (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
RPL CONSIDERATION
EXECUTIVE SESSION
RELEASE OF FINAL AND PRELIMINARY AUDITS
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAVID TEAL, Legislative Fiscal Analyst
Legislative Finance Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information regarding the RPLs.

CRAIG TILLERY, Deputy Attorney General

Civil Division
Office of the Attorney General
Department of Law (DOL)
Anchorage, Alaska

POSITION STATEMENT: Testified on RPL 08-1-0248

CATHY SHERMAN, Librarian
City of Cordova
Cordova, Alaska

POSITION STATEMENT: Testified briefly on RPL 08-1-0248.

ACTION NARRATIVE

[2:13:33 PM](#)

CHAIR KEVIN MEYER called the Legislative Budget and Audit Committee meeting to order at 2:13 p.m. Representatives Stoltze, Thomas, Doogan, and Rep. Hawker (via teleconference), and Senators Meyer, Hoffman, and Huggins were present at the call to order. Senator Stedman and Representatives Neuman (via teleconference), Chenault (alternate), and Tuck (alternate) arrived as the meeting was in progress.

^Approval of Minutes

[2:16:39 PM](#)

CHAIR MEYER announced that the first order of business would be the approval of the minutes.

REPRESENTATIVE STOLTZE made a motion to approve the minutes from the October 29, 2010 meeting. There being no objection, the minutes from the October 29, 2010 meeting were approved.

^Revised Program - Legislative (RPLs)

[2:17:10 PM](#)

CHAIR MEYER announced that the next order of business would be consideration of RPLs. The committee will consider RPL 04-1-1037, Mental Health Trust Authority, Department of Revenue (DOR); RPL 05-1-1086, Broadband Technologies Opportunities Program (BTOP), Department of Education and Early Development (DEED); RPL 08-1-0248, Cordova Community Center Facility, Department of Commerce, Community, and Economic Development (DCCED).

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DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, provided information regarding the RPLs.

MR. TEAL, with regard to RPL 04-1-1037, explained that the Mental Health Trust Authority, Department of Revenue (DOR) has requested \$125,000 for an Alcohol Abuse Program officer. The funding of \$125,000 listed is incorrectly as all Mental Health Trust Administration Receipts (MHT Admin) but the backup is correct, which lists \$40,000, and reflects the amount approved by trustees. The \$85,000 in Statutory Designated Program Receipts would come from the Rasmuson Foundation and the Mat-Su Health Foundation, who have committed to funding \$65,000 and \$20,000, respectively.

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MR. TEAL, in response to Chair Meyer, with regard to RPL 04-1-1037, agreed the amount funding source should be corrected to reflect \$40,000 in Mental Health Trust Administration Receipts (MHT Admin) and \$85,000 in Statutory Designated Program Receipts for a total of \$125,000. He said he was unsure how the error arose.

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SENATOR HUGGINS made a motion to amend RPL 04-1-1037, to reflect \$40,000 funding source from Mental Health Trust Administration Receipts and \$85,000 from Statutory Designated Program Receipts. There being no objection, the motion to amend the RPL passed.

CHAIR MEYER asked if there were any further objections to RPL 04-1-1037. There being none, the motion to adopt RPL 04-1-1037, as amended was approved.

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CHAIR MEYER brought up the next RPL, RPL 05-1-1086, Broadband Technologies Opportunities Program (BTOP), Department of Education and Early Development (EED).

MR. TEAL explained RPL 05-1-1086, Broadband Technologies Opportunities Program (BTOP), Department of Education and Early Development (EED). He referred to page 3 of the RPL, noting the RPL was reviewed at the October 29th LB&A meeting and was held over pending agency response to several policy questions and to consider the funding to avoid asking for all three years of funding in the first year of the grant. He noted that since it is an operating grant the funding would lapse at the beginning

of the year. He recommended the committee's first action be to amend the funding to \$2,432,400 of American Recovery and Reinvestment Act of 2009 (ARRA) funds and \$1,028,155 of SDPR, for a total of \$3,460,555, and noted that the total does not change. The agency responses are attached, beginning on page 3 of the RPL, he stated.

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CHAIR MEYER relayed that the committee would address RPL 05-1-1086 further, later on in the meeting, at which time the committee could take up the suggested amendment. He recalled that some Department of Education staff has been meeting with legislators.

REPRESENTATIVE STOLTZE suggested it would also probably be more relevant to discuss policy questions first, since it would moot to discuss the policy questions once the committee has voted on the level of funding. He voiced concern about the letter of response facilitated by the state librarian and the Alaska State Library Association (AkLA), and specifically stating that he had been underwhelmed by the response to the specific concerns expressed by legislators.

CHAIR MEYER reaffirmed that RPL 05-1-1086 would be held until later, noting that the policy questions could be discussed and subsequently the pending amendment would be taken up.

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CHAIR MEYER brought up the next RPL, 08-1-0248, Cordova Community Center Facility, Commerce, Community, and Economic Development (DCCED).

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MR. TEAL explained RPL 08-1-0248, that the DCCED was requesting \$7,508,393 of Exxon Valdez Oil Spill Trust monies, and \$11,607 of Statutory Designated Program Receipts (SDPR) for the purpose of adding an FY 11 Capital Project for a new Exxon Valdez Oil Spill (EVOS) facility in Cordova.

MR. TEAL stated that the facility would combine administrative functions: a conference center, a public education facility including a museum and library, as well as provide for an information center. The request will cover approximately one-third of the overall cost of the facility, estimated at \$22 million. The Exxon Valdez Oil Spill Trustee Council (EVOSTC) approved the funding in early November 2010. If this funding is approved, the funding would go through the DCCED as a grant to the City of Cordova. The RPL has been revised from the original submitted by the Governor's office to add \$500,000 in interest, which may be earned on the Exxon Valdez Oil Spill Settlement (EVOSS) monies as transferred over, plus it would put in \$11,607 of SDPR to cover the administrative costs of the department and is expected from the City of Cordova.

CHAIR MEYER recognized that Rep. Chenault joined the meeting, noting that he is an alternate. He reported that Representative Neuman has also joined the meeting via teleconference. He reported that the RPL for the Cordova facility is under consideration.

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REPRESENTATIVE STOLTZE asked whether there was any urgency to approve this request since this meeting falls just prior to the legislative session, and why this request cannot be part of the upcoming budget process.

MR. TEAL responded that the same question was posed by the Division of Legislative Finance. The answer was that the sense of urgency stems from the City of Cordova's desire to be reimbursed for costs which they have incurred. However, he pointed out there is already \$4 million in general fund monies in this capital project that could be used to reimburse the City of Cordova for its expenditures. He suggested asking the requesting agency the reason for the urgency, since Legislative Finance tends to agree there is not any urgency given the \$4 million general fund monies.

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SENATOR STEDMAN reiterated Representative Stoltze's remarks. He thought that the project might be time-sensitive to the community, but still would require justification since the request falls close to the normal legislative appropriation cycle.

CHAIR MEYER suggested RPL 08-1-0248 could be held, but asked if there was anyone from the agency that could answer the question.

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CHAIR MEYER clarified for the public, reporting that the committee has held over two RPLs, RPL 05-1-0186, Broadband Technologies Opportunities Program, Department of Education and Early Development (EED), but the Mental Health Trust Authority RPL 04-1-1037 was approved. The committee is currently on RPL 08-1-0248, the Cordova Community Center Facility, Department of Commerce, Community, and Economic Development (DCCED).

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CRAIG TILLERY, Deputy Attorney General, Civil Division, Office of the Attorney General, Department of Law, stated that he also serves on the Exxon Valdez Oil Spill Trust Council (EVOSTC) and serves as legal counsel to that body. He explained that the Exxon Valdez monies would give back to the community, noting the City of Cordova can receive over \$7 million, plus interest, not to exceed one-third of the project costs for the community center. Thus far, the City of Cordova has put some funding into this project, including for planning. Additionally, groundbreaking on the Cordova Center began in the summer of 2010, foundations have been dug, and concrete has been poured. Over the winter, steel will be purchased for the project, he said.

MR. TILLERY advised that it would be financially beneficial for the City of Cordova to repay itself for past expenditures eligible for reimbursement from the Exxon Valdez Oil Spill (EVOS) funds since the money will earn interest and will be directly attributable to the project. If the funds are delayed and not available until April or May, or the lack of approval for EVOSS funding will mean the city would lose that amount of money. He described it as a small project on a tight budget and

that this amount of money could make a difference. The second reason is that some fundraising still needs to be done, and obtaining one-third of the funding would help considerably [to demonstrate commitment] when raising money from private foundations. It would be appropriate in the context that the legislature already approved this project, in essence with two previous appropriations. Further, this money is not funding that the state legislature needs to be concerned about or balance against other needs of the state since it is EVOS Trust Receipts funds. He remarked that the Exxon Valdez Oil Spill Trust Council (EVOSTC) could also take the funding back and redirect it, which the legislature could approve or disapprove. He concluded that the RPL request is appropriate at this time for these reasons.

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SENATOR STEDMAN asked for dollars on the opportunity cost on the amount.

REPRESENTATIVE STOLTZE pointed out that the administration is not going to be concerned about appropriation prerogatives.

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REPRESENTATIVE DOOGAN asked whether the RPL represents a third of the cost of the Cordova Community Center Facility.

MR. TILLERY agreed, noting that the EVOSTC has agreed to fund \$7 million plus interest up to one-third of the project cost. The total budget for the project is approximately \$21 million.

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REPRESENTATIVE DOOGAN related his understanding that the state appropriation is \$4.5 million, and that this RPL request would provide an additional \$11 million for the Cordova project.

MR. TILLERY clarified that the state general fund portion is \$4.5 million. The additional \$7 million in funding is indivisibly joint state/federal funding, he stated. He remarked that he has been working on this for several years, which he characterized as a lengthy and difficult process and requires approval of the federal agencies, in particular the U.S. Department of Justice (USDOJ). He stated that the final signoff by the USDJ occurred about six weeks ago.

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REPRESENTATIVE DOOGAN related that about two-thirds of the money is spoken for, but he also recalled earlier testimony that the City of Cordova is still fund raising for the project.

MR. TILLERY referred to a letter in the packet to from the City of Cordova to the EVOSTC that describes the status of the funding. Basically, the City of Cordova contributes \$1.7 million, federal and state sources \$16 million, and the foundations \$1.2, for a total secured and projected \$21.7 million, with the current project budget set at \$21.3 million, he summarized.

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REPRESENTATIVE DOOGAN recapped that the total project cost is estimated at \$21 million, that if the RPL is approved, would represent one-third of the costs, plus unspecified funds. He said that there seems to be a substantial hole in the budget and wondered why the state is funding the first \$7.5 million instead of the last \$7.5 million.

MR. TILLERY related his understanding that \$19 million is secured funding, which is the vast majority of the overall cost of \$21 million. The legislature's funding helped acquire the EVOS funds, and the EVOS funding makes it possible to go the Rasmuson Foundation, and other foundations to request the final funding. He offered his belief that the EVOS funding provides a bit of a tipping point to obtain the remaining funding for the project, which in reality is not that much, according to the information from the City of Cordova.

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CATHY SHERMAN, Librarian, City of Cordova, stated that there is a relatively small amount remaining local fundraising. The remainder of the funding required is about \$2.5 to \$3 million, and have begun conversations with foundations have begun.

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REPRESENTATIVE HAWKER shared his concerns about the timing of the request. The committee's protocol has been to not "trump" the regular budget process, yet to recognize that sometimes there are compelling reasons for an RPL. Representative Thomas represents Cordova and he valued his opinion on the timing.

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REPRESENTATIVE THOMAS related that he viewed this as part of the healing process of the Exxon Valdez oil spill catastrophe, which devastated the community of Cordova, which is why he has worked hard on this project. He offered that articles in background materials point out that the compensation to fishermen is less than one-fifth of what they expected to receive. He explained that about 2,500 people live in the community and they are trying to rebuild their economy. This community is the second largest in his district. He related that fishermen, including him received payments that represent a pittance. He urged members to move forward with this request. He reminded members that this process has taken years to resolve.

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REPRESENTATIVE HAWKER asked Mr. Tillery the reason this request was not included last year's capital budget.

MR. TILLERY answered that EVOSS did not have approval, that while the EVOS Trustee Council approved this over two years ago, the U.S. Department of Justice (USDOJ) had not signed the necessary papers to allow disbursement from the investment account. He related that he spent the last two years working with the USDOJ trying to resolve issues. The resolution was only recently signed, and the money was not disbursed until the resolution signed on November 3, 2010. Thus, this was the first opportunity to bring this matter forward to the LB&A.

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REPRESENTATIVE HAWKER clarified that he is out of state and did not have access to the documents, for which he apologized.

REPRESENTATIVE STOLTZE stated that this is a much better EVOS project and much better legacy project than some.

REPRESENTATIVE NEUMAN offered his belief that it is fairly important to get this money moving, that it is pretty critical to do so prior to the construction season. He thought if the RPL was held and it went through the regular budget process it might take until July before the community would get funding.

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SENATOR MEYER removed his objection. There being no further objection, RPL 08-1-0248 was approved.

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CHAIR MEYER announced the last RPL not approved, that had been held over from last month, would be taken up, RPL 05-1-1086, Broadband Technologies Opportunities Program (BTOP), Department of Education and Early Development (EED).

REPRESENTATIVE STOLTZE stated that he previously expressed his concerns at the last meeting. He noted that he has had problems with state library responses. He asked specific questions and received a lecture on the First Amendment, which was a chiding letter. He related that he has had disagreements previously. He has respect for the Rasmuson Foundation. He said that he did not wish to impede the progress.

CHAIR MEYER agreed numerous questions arose at the last LB&A meeting; pointing out the Rasmuson Foundation has subsequently met with him and other legislators to answer questions.

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REPRESENTATIVE NEUMAN stated that he, too, still has concerns. He related that he spoke to several librarians in his district. The EED has been working with them, but he maintained concern that the public does not have access to information that concerns our government. He said he supports the efforts of some of the foundations and would like to improve rural libraries.

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REPRESENTATIVE DOOGAN asked whether the whole amount would be advanced or just the current year's amount.

CHAIR MEYER recalled the total would be \$3.46 million, with \$2.4 from the American Recovery and Reinvestment Act of 2009 (ARRA) funds and \$1 million in Statutory Designated Program Receipts.

MR. TEAL concurred.

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REPRESENTATIVE STOLTZE made a motion to amend RPL 05-1-1086 to read \$2,432,400 in ARRA funds (stimulus), \$1,028,155 in SDPR program receipts for a total of \$3,460,550. There being no objection, the amendment was adopted.

CHAIR MEYER advised that RPL 05-1-1086 was before the committee. There being no further objections, RPL 05-1-1086, Broadband Technologies Opportunities Program (BTOP), Department of Education and Early Development (EED) was approved, as amended.

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REPRESENTATIVE STOLTZE made a motion to go into executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session.

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CHAIR MEYER brought the committee back to order at 3:56 p.m.

^Release of Final and Preliminary Audits

[3:56:17 PM](#)

REPRESENTATIVE DOOGAN made a motion to move the following preliminary audits be released to the department for response: Department of Commerce, Community, and Economic Development (DCCED), Report, Regulatory Commission of Alaska, FY 09 annual report; Department of Commerce, Community, and Economic Development, Board of Dental Examiners - sunset review; Department of Commerce, Community and Economic Development, Board of Barbers and Hairdressers, - sunset review; Department of Commerce, Community, and Economic Development, Board of Nursing, - sunset review; Department of Revenue, Alaska Natural Gas Development Authority - special report. There being no objection, the motion passed.

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REPRESENTATIVE DOOGAN made a motion to move the following preliminary audits be released to the agencies for response: Department of Commerce, Community, and Economic Development, Regulatory Commission of Alaska - sunset review; Department of Natural Resources, Alaska Coastal Management Program, Part 1 - special report. There being no objection, the motion passed.

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REPRESENTATIVE DOOGAN made a motion to release the Single Audit Pilot Project Interim Communications to the public. There being no objection, the motion passed.

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CHAIR MEYER thanked Pat Davidson, Legislative Auditor for her hard work on preparing the audits.

^OTHER COMMITTEE BUSINESS

[3:58:24 PM](#)

CHAIR MEYER, under other committee business, announced that the committee would next consider extensions to the Consultant Contracts. He explained that the LB&A committee consultant contracts expire at the end of the calendar year, in basically two weeks. It is in the state's best interest to continue to have David Wood, Dan Dickinson, Chuck Logsdon, and Roger Marks continue to work on behalf of the legislature. Thus,

recommendation is to amend the contracts to reflect an extension to the end of the fiscal year, through June 30, 2011.

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REPRESENTATIVE DOOGAN made a motion that the committee extend the contracts of Wood, Dickinson, and Logston through the end of the fiscal year, June 30, 2011. There being no objection, the motion passed.

CHAIR MEYER directed his staff, Josh Applebee, to prepare the contract extensions.

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SENATOR STEDMAN explained that the legislature has the opportunity to update the data base worldwide for the 100 or so oil fields from two different sources, the Pedro van Meurs firm and Wood Mackenzie, which represent two competing firms. The committee previously purchased these reports from Dr. Pedro van Meurs and Wood Mackenzie.

SENATOR STEDMAN made a motion to purchase the data base updates from the Pedro van Meurs firm and Wood Mackenzie, with a covenant on Wood Mackenzie to direct the Chair to speak with the Parnell administration to ascertain whether it will purchase the Wood Mackenzie database since the state could obtain a discount. Additionally, this motion would direct the Chair to interface with Dr. Wood, to determine the extent of the access and use of the Wood Mackenzie models and data. Further, this motion would request Wood Mackenzie to determine the cost to perform analysis

for basin comparisons in Alaska and for other basins around globe.

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CHAIR MEYER asked whether there would be a cost cap.

SENATOR STEDMAN clarified that the motion included a cap the appropriation at \$100,000.

CHAIR MEYER objected for purpose of discussion.

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SENATOR STEDMAN explained that the legislature has been solicited by both firms, with the van Meurs firm having a multitude of these basins in data format. This would allow the legislature to compare the fiscal regime in Alaska, relative to the other basins, such as Alberta or the Gulf of Mexico. Wood Mackenzie is similar but would give the legislature the opportunity to have two opinions to compare and contrast, and some legislators may be more comfortable with one data set versus another which could give the legislature some check and balance as it moves forward on oil and gas tax considerations. He offered that it is a coincidence that both firms solicited the legislature this fall with this data, with each claiming to provide the best information. He stressed the importance of having the basin numbers available to the legislature. He pointed out that several years ago the legislators signed confidentiality agreements with Wood Mackenzie. This data set will be a little different, and there will be some criteria as to how the information is handled. He anticipated that some

work will be required to interface information into Dr. Wood's model, but the result will provide the legislature with the necessary tools on this subject matter.

CHAIR MEYER asked for the timeframe for the reports.

SENATOR STEDMAN recollected that the van Meurs information is dispensed in four sections, with the distribution in January, and again about every three months. The Wood Mackenzie data is "locked and loaded and ready to go." He noted each is a little different but the information covers the same subject matter.

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CHAIR MEYER related that the data reports will be completed under Representative Hawker's guidance as chair of this committee.

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REPRESENTATIVE TUCK asked whether the state would save money by contracting out for these services, and for clarification on \$100,000 cap for the consultant's contracts, whether that was annually for both contracts or if it was a \$100,000 cap for each one.

SENATOR STEDMAN responded that the cap was for \$100,000. He anticipated that the contract for van Meurs would be about \$35,000 and the Wood Mackenzie to be somewhat higher than that so the legislature would have some flexibility. In discussions with Wood Mackenzie, the contract would include a presentation tailored for Alaska, which will have current numbers for the

global oil basin. This will provide a comparison so the legislature can see how its oil taxes compare relative to other oil and gas basins. The cap relates to the one-time purchased reports and is not annual.

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REPRESENTATIVE TUCK said he understood that the [van Meurs] report is distributed in four parts. He asked whether the contract would allow the legislature to save money.

SENATOR STEDMAN related that Dr. Wood has built an analytical model for the basin, but the legislature has not updated the basin analysis under the initial production profits tax (PPT) that was prepared during the Murkowski administration. This would refresh the data set. This administration has worked with Wood Mackenzie and the van Meurs group so neither firm is new to the legislature or the administration. He emphasized that very few firms do this type of analysis, probably less than five.

CHAIR MEYER removed his objection. There being no further objection, the motion passed.

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ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:09 P.M.